

Message Text

UNCLASSIFIED

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 /122 W
-----019661 310920Z /12

P 310855Z MAY 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 8354
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: NA
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS MAY 25-31

1. SUMMARY. DOLLAR FALLS SHARPLY AGAINST THE YEN.
INDUSTRIAL PRODUCTION WEAKENS IN APRIL AFTER ROBUST
EXPANSION IN MARCH AND EARLIER. BUILDUP TO THE SUMMIT
RENEWS DISCUSSION OF POSSIBLE SUPPLEMENTAL BUDGET, WITH
WAIT-AND-SEE STILL THE DOMINANT ATTITUDE. TOKYO CPI
FOR MAY SHOWS INFLATION UP 4.3 PERCENT OVER YEAR
EARLIER. JAPAN'S NET FOREIGN ASSETS ROSE \$12.4
BILLION IN 1977, TO REACH \$22.0 BILLION AT YEAR END.

END SUMMARY.
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2. THE DOLLAR, AFTER BRIEFLY TOUCHING A TWO MONTH INTER-
DAY HIGH OF 229.65 ON MAY 23, HAS TAKEN A DRUBBING IN
RECENT DAYS IN THE TOKYO INTERBANK MARKET. IN EARLY
TRADING MAY 31 THE DOLLAR HIT YEN 222.60, A 3 PERCENT
DROP IN SIX DAYS OF TRADING. TRADING VOLUME HAS BEEN
SLIGHTLY ABOVE THE RECENT AVERAGE. MARKET COMMENTATORS
GENERALLY ATTRIBUTED THE BREAK IN THE EXCHANGE RATE TO

HEIGHTENED CONCERN ABOUT CURRENT ACCOUNT IMBALANCES FOLLOWING THE DELAYED ANNOUNCEMENT OF U.S. APRIL TRADE FIGURES. IN ADDITION THE RECENT EXPANSION OF SWAP LIMITS FOR FOREIGN BANKS AND THE ANTICIPATION OF FURTHER EASING OF RESTRICTIONS ON CAPITAL INFLOWS INTO JAPAN HAVE PROBABLY HAD SOME EFFECT ON THE TREND OF THE EXCHANGE RATE.

3. INDUSTRIAL PRODUCTION FIGURES RELEASED IN THE LAST WEEK INDICATE A SEESAW EXPANSION PATTERN. MARCH FIGURES WERE REVISED UPWARD SUBSTANTIALLY TO SHOW A VIGOROUS 2.1 PERCENT (S.A.) MONTHLY INCREASE WHILE THE APRIL PRELIMINARY DATA SHOW MINING AND MANUFACTURING PRODUCTION DIPPED 0.5 PERCENT (S.A.), ENDING FIVE CONSECUTIVE MONTHS OF EXPANSION. (TOKYO 7583, 9469). MITI SPOKESMAN ASCRIBED THE WEAKER APRIL FIGURES TO A NORMAL CORRECTION FOLLOWING THE BETTER THAN EXPECTED MARCH RESULTS AND HINTED THAT SUBSEQUENT REVISIONS MIGHT TURN THE APRIL RESULTS INTO A SMALL INCREASE. THE REVISED FIGURES FOR MARCH BROUGHT THE INCREASE IN MINING AND MANUFACTURING PRODUCTION IN THE FIRST QUARTER OF 1978 TO A 12.9 PERCENT S.A.A.R. BASED ON THE PRELIMINARY DATA FOR APRIL, THE LATEST SIX MONTHS OF QUICKENED INDUSTRIAL ACTIVITY HAVE INCREASED MINING AND MANUFACTURING OUTPUT BY 11 PERCENT OVER THE LEVEL OF LAST OCTOBER AT A S.A.A.R.

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4. PUBLIC DISCUSSION OF THE POSSIBILITY OF ADDITIONAL STIMULUS MEASURES HAS REVIVED IN RECENT DAYS BUT THE OFFICIAL STANCE REMAINS WAIT-AND-SEE. CHAIRMAN DOKO OF THE POWERFUL KEIDANREN HAS SAID THAT EVEN THOUGH THE ECONOMIC SITUATION LOOKS A LITTLE BRIGHTER, FURTHER EFFORTS MIGHT BE NECESSARY. DOKO HAS SAID HIS ORGANIZATION WILL ASK THE GOJ TO TAKE NECESSARY ACTIONS AFTER WATCHING BUSINESS PERFORMANCE DURING JUNE AND JULY. IN A MAY 26 STATEMENT TO THE KEIDANREN, PM FUKUDA REPEATED EARLIER STATEMENTS THAT AT ANY TIME THERE IS ANY DOUBT ABOUT ACHIEVING THE GROWTH TARGET APPROPRIATE ACTION WILL BE TAKEN. IN SEPARATE STATEMENTS THE PM HAS SAID THERE WOULD BE NO DIFFICULTY IN TAKING ACTION, IF NECESSARY, TO ACHIEVE THE GROWTH TARGET SINCE INFLATION HAS SUBSIDED. EPA DIRECTOR GENERAL MIYAZAWA TOLD THE KEIDANREN HIS CONFIDENCE IN ACHIEVING THE GROWTH TARGET HAS INCREASED SINCE THE FIRST OF THE YEAR; HE ALSO TOLD NIHON KEIZAI THAT THE RESERVE FUND IN THE BUDGET WOULD BE THE FIRST RECOURSE SHOULD ANY ADDITIONAL STIMULUS BE NEEDED. ON MAY 24 MOF VICE MINISTER FOR INTERNATIONAL AFFAIRS MATSUKAWA REPORTEDLY TOLD THE JAPAN PRESS CLUB THAT A MINISTERIAL MEETING

BEFORE THE JULY SUMMIT SHOULD DISCUSS WHAT JAPAN CAN
DO TO STIMULATE GROWTH. AN UNNAMED MITI SOURCE
REPORTEDLY SAID THAT AN END OF JUNE
MINISTERIAL COUNCIL WOULD DISCUSS THE POSSIBILITY OF
A SUPPLEMENTAL BUDGET.

5. CONSUMER PRICE INDEX FOR TOKYO, N.S.A., ROSE
0.7 PCT IN MAY OVER THE PRIOR MONTH'S LEVEL TO 124.7.
ON YEAR-OVER-YEAR COMPARISON, HOWEVER, INFLATION RATE
SUBSIDED FURTHER TO 4.3 PCT IN MAY, RECORDING THE
FIFTH STRAIGHT MONTH OF 4 PCT LEVEL YEAR-OVER-YEAR

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P 310855Z MAY 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 8355
TREASURY/DEP WASHDC PRIORITY
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INCREASE. THE NATIONAL CPI FOR APRIL ROSE 1.1 PCT
TO 122.5, SHOWING YEAR-OVER-YEAR INCREASE OF 3.9 PCT.
(TOKYO 9560.)

6. JAPAN'S NET FOREIGN ASSETS EXPANDED BY \$12.4 BIL IN
1977 TO TOTAL \$22.0 BIL AT END OF THE YEAR, MINISTRY OF
FINANCE (MOF) ANNOUNCED MAY 26. ACCORDING TO THE
LATEST OFFICIAL BALANCE SHEET, JAPAN'S FOREIGN ASSETS
INCREASED BY NEARLY 18 PCT IN 1977 AND TOTALED \$80.1 BIL
AT THE END OF THE YEAR. JAPAN'S FOREIGN LIABILITIES,
ON THE OTHER HAND, REMAINED VIRTUALLY UNCHANGED (DOWN 0.6
PCT) AND AMOUNTED TO \$58.1 BIL AT YEAR END. WITHIN THESE
TOTALS JAPAN'S INTERNATIONAL OFFICIAL RESERVES ROSE

\$6.6 BIL TO ACCOUNT FOR ROUGHLY ONE HALF OF THE TOTAL ASSET INCREASE DURING THE YEAR. FOREIGN PURCHASES OF JAPANESE SECURITIES (INCLUDING GOJ BONDS) WERE BULLISH IN 1977, BUT WERE OFFSET BY JAPANESE PURCHASES OF FOREIGN SECURITIES. THE DECLINE IN COMMERCIAL BANKS' SHORT-TERM UNCLASSIFIED

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BORROWING ABROAD PRESUMABLY REFLECTED STAGNANT IMPORTS AND SOME SHIFTING OF FOREIGN TRADE FINANCING FROM DOLLARS TO YEN.

JAPANESE FOREIGN ASSETS AND LIABILITIES (IN \$BIL; AT END OF YEAR):

-	ASSETS	LIABILITIES		
-	CHANGE	CHANGE		
-	1977	FR 76	1977	FR 76
(1) LONG-TERM	42.1	5.2	19.6	1.2
PRIVATE SECTOR	31.2	3.4	16.0	0.5
(DIR INVEST)	12.0	1.6	2.2	0
(TRADE CREDITS)	8.8	1.4	0.1	0
(LOANS)	4.3	MIN 1.1	1.8	MIN 0.4
(SECURITIES)	5.6	1.4	11.9	0.7
PUBLIC SECTOR	10.9	1.8	3.5	0.7
(TRADE CREDITS)	0.3	0	N/A	
(LOANS)	8.0	1.5	0.3	0
(SECURITIES)	N/A		2.2	0.8

(2) SHORT-TERM 38.0 6.9 38.5 MIN 1.5

PRIVATE SECTOR 14.8 0.3 36.1 MIN 2.3
(BANKING) 14.5 0.2 26.9 MIN 1.5

PUBLIC SECTOR 23.2 6.6 2.4 0.8

(3) TOTAL 80.1 12.1 58.1 MIN 0.3

NOTE: PAREN AROUND ITEMS INDICATE THEY ARE INCLUDED IN UNCLASSIFIED

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PRECEDING SUBGROUP.
MANSFIELD

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Message Attributes

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